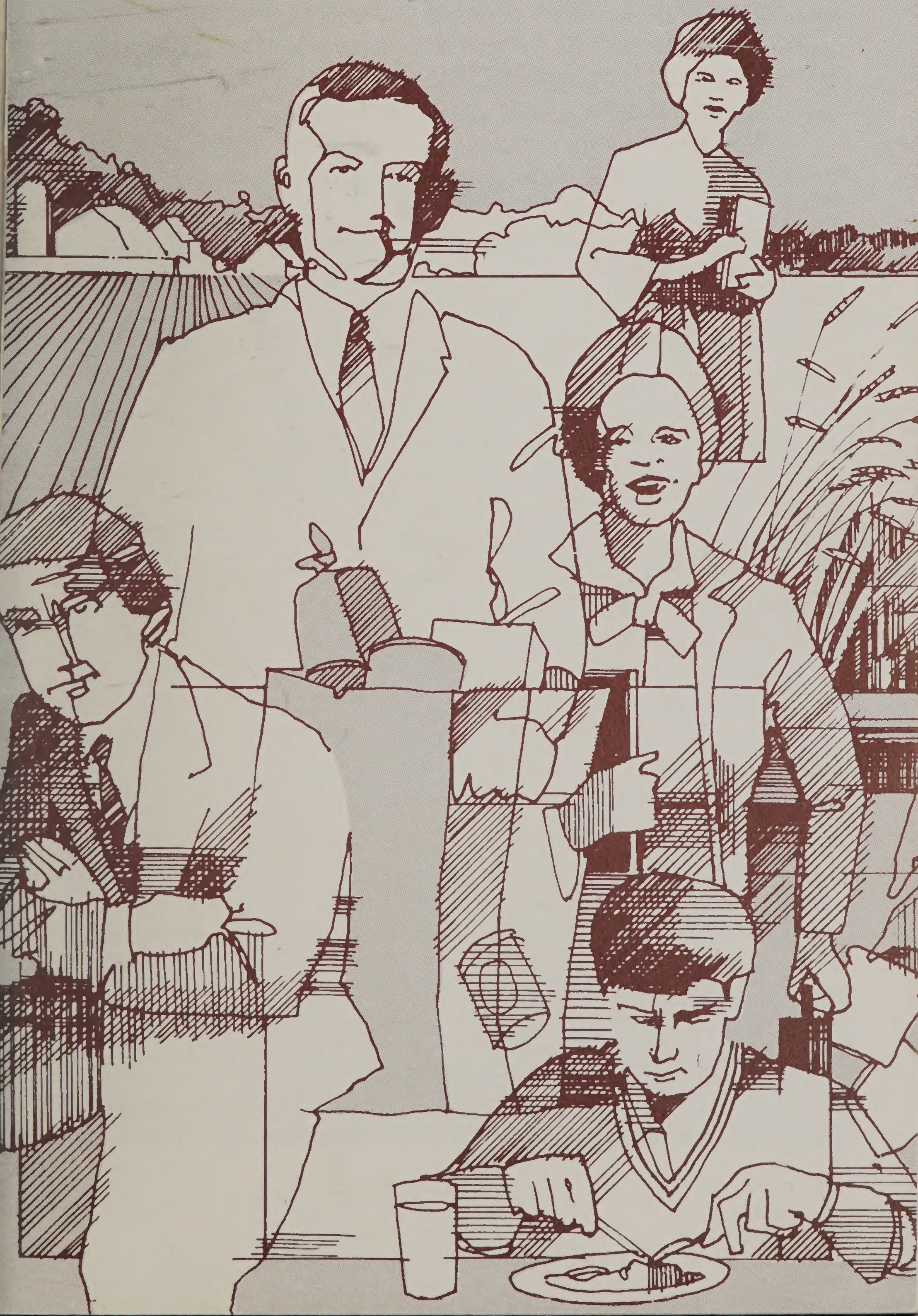
United States Department of Agriculture

Office of Governmental and Public Affairs

What Farm Exports Mean to You



Wh

American farmers are the most efficient and productive in the world. They grow far more food and fiber than we can use in the United States. Consequently, we export large amounts of American farm products—more than $40 billion worth in 1980.

But why should we export our farm products? Doesn't that just raise food prices here? Shouldn't we hold onto what is ours? Well, let's see.

Let's look at what might happen if suddenly we stopped exporting all farm products. Admittedly, that's extreme, but there's a point to looking at what would probably happen:

...Jobs for more than 1 million people would be wiped out. They are the Americans who raise, process, ship and finance our farm exports.

...The tens of thousands of tractors and other pieces of equipment used to produce crops that are exported would be idled. Some farm equipment manufacturers would go broke. Many local businesses that sell supplies to farmers would be driven into bankruptcy. That would bring a sharp population decline in rural towns, forcing people into urban areas looking for jobs.

...The production from 1 cropland acre out of 3 suddenly would not be needed. More than 100 million farmland acres are now used for growing crops for export. That's about equal to the combined size of Indiana, Illinois, New Jersey, New York, South Carolina, and Hawaii. With their income sharply reduced, farmers couldn't afford to invest in the modern practices and conservation needed to keep that expanse of land in good productive condition, safe for future generations.

...Retail food prices would probably drop during the first year or so due to oversupplies and a sudden decline in farm prices. But farmers get only about 33 cents from a retail food dollar, anyway. The increases in the 67-cent portion of the food dollar would keep climbing. After a while food prices at the supermarket most likely would rise since many farmers would be forced out of farm production.

...Loss of export markets would sharply reduce farm income. Unprecedented Government financial support would be needed to help farmers adjust, which in turn would place a heavier burden on American taxpayers.

...Hundreds of thousands of farmers would go out of business; others would have to reduce production. Wholesale farm bankruptcies would hit hard in the 16 States where one-third to one-half of farm income now comes from agricultural exports (Arkansas, Illinois, Indiana, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, North Carolina, North Dakota, Ohio, Oklahoma, and South Carolina).

...Land prices would collapse, causing heavy losses to farmers and farmland owners and banks, life insurance

companies, and other financial institutions that hold mortgages based on today's farm values. People who have a stake in those financial institutions would lose, too.

...Millions of people in other countries who depend on our farm products would suddenly be short of food. Worse yet, many would suffer from malnutrition; others would starve. American farm exports are the difference between starvation and survival for more than 40 million people around the world.

...The loss of more than $40 billion a year in farm export income would deepen the deficit in our balance of payments. That would make the things we buy from other countries more expensive. The deficit would weaken the dollar, raise the price we pay for foreign goods, and fan the fires of inflation which eat away at the purchasing power of people's income.

Admittedly, that extreme scenario of stopping all farm exports is not likely to happen. It does, however, help us see the importance of U.S. farm exports. Now let's explore the positive side of these exports.

Food Costs

Here's a quick look at how exporting a bushel of wheat helps a housewife, a mechanic, a cement finisher, a school teacher, a doctor, an assembly line worker, or a lawyer.

Consider this:

U.S. farmers export two-thirds of their wheat crop, almost two-thirds of their rice, half of their soybeans, three-fifths of their cotton, and more than one-third of their corn. Those shipments are the part of our farm production that isn't needed here in the United States. **But that higher level of production holds down food prices in this country.**

Take wheat, for example. There are certain costs that farmers must pay no matter how much or how little they produce; costs for such things as machinery upkeep, land taxes, mortgage interest, and overhead. Because of this, the more farmers produce, the lower the costs per unit of production. In short, it is generally cheaper per bushel to produce 1,000 bushels of wheat and export the two-thirds—666 bushels—that aren't needed here than it is to produce only the 333 bushels of wheat that we can use and keep it all here.

Exports, therefore, help make it possible for American farmers to be so productive that U.S. consumers pay comparatively less for food than people in almost any other country in the world. As an average, we spend less than 16 percent of our national income for food. In some countries people pay 30, 40, 50, and 60 percent of their national income for food.

Balance of Payments

The U.S. "balance of payments" makes a real difference to you. It might sound complicated, but it really isn't. The balance of payments is simply the difference between the number of dollars we pay for what we *buy* overseas and the number of dollars we get from what we *sell* overseas.

It's as simple as this: In order to buy the things we want and need from foreign countries, we have to sell something overseas to get the foreign exchange to pay for the imports. It's somewhat similar to your own personal finances: you have to make money in order to spend it. If you have a business, you have to sell in order to buy. Nations have to sell in order to buy, too.

If you or your own business spend more than you make, you go into debt. The larger the debt, the shakier your finances. After a while, your credit won't be very good. Your debt charges eat you up. You or your business may have to pay higher interest rates because of the danger that you can't pay your bills. Then you might have to charge higher prices for what you sell in order to make ends meet, and your products would

become less competitive with others. A similar thing applies to the finances of the United States. If we buy more overseas than we sell, we have a negative balance of payments. If that negative balance gets too big, our dollars weaken in the international market. Those dollars won't buy as much overseas when foreign buyers lose faith in the value of the dollar and lose faith in our ability to pay. The foreign buyers demand more dollars for the same goods.

It is surprising how much we import these days. We can dine on Polish ham garnished with Spanish vegetables and washed down with French wine. Before going out the door we can pull on a British sweater, jump into a German car, ride on tires made from Malaysian rubber, and fill the tank with gas made from Arab oil. At the end of the day, we might light up some Turkish tobacco, put on our Italian slippers, and check our Swiss watch to see if we are in time for the special program on our Japanese television set. When we pay for those imports, that's where the balance of payments comes in and where agricultural exports help out.

Just remember that if we buy more overseas than we sell overseas, the trade deficit saps the strength of the U.S. dollar. The larger the trade deficit, the weaker the dollar—and the more dollars it takes to buy foreign products. That creates even greater inflation for American consumers, since inflation is a condition where our money generally buys less.

Now, a favorable balance of payments—when we sell more overseas then we buy—strengthens the dollar; we get more for our money when we buy overseas. And that makes prices more stable for American consumers.

No wonder exports are so important to all of us.

U.S. farm exports have been making a big, favorable contribution to the Nation's balance of payments in recent years, partially offsetting big losses in nonfarm trade. You see, U.S. imports of nonfarm goods have been growing much faster than our exports of nonfarm goods—this has created deeper and deeper deficits in nonfarm trade. But U.S. agricultural exports have been increasing much faster than agricultural imports, creating a favorable balance in agricultural trade to help offset these losses in nonfarm trade.

Look at what has happened:

In 1970, U.S. farm exports totaled about $7 billion, producing an agricultural trade surplus (above agricultural imports) of about $1 billion. Nonfarm exports were much larger—$34 billion—and we had a nonfarm trade surplus (above nonfarm imports) of almost $1 billion. That, surprisingly, was the last year that we had a nonfarm trade surplus. In 1980—in just 10 years—that nonfarm trade surplus of $1 billion had changed to a *nonfarm trade deficit* of $51 billion. But the *farm trade*

surplus of $1 billion in 1970 had grown to $24 billion. A dramatic change.

The 1980 *agricultural trade surplus* was a record $24 billion but the nonfarm trade deficit of $51 billion was also a record. That growing overall deficit in the balance of payments is the reason our dollar has been weak in international exchange. That's why farm exports and the agricultural trade surpluses are so important to every American. Think of the trouble the dollar would be in if we didn't have that $24 billion farm trade surplus.

Agriculture's contribution to the U.S. balance of payments

	Billion dollars				
	1970	1977	1978	1979	1980
Agricultural exports	7.0	24.0	27.0	32.0	41.0
Agricultural imports	6.0	13.0	14.0	16.0	17.0
Agricultural trade balance	+1.0	+11.0	+13.0	+16.0	+24.0
Nonagricultural exports	34.0	94.0	104.0	136.0	170.0
Nonagricutural imports	33.0	129.0	152.0	177.0	221.0
Nonagricultural trade balance	+1.0	–35.0	–48.0	–42.0	–51.0
Total trade balance	+2.0	–24.0	–34.0	–26.0	–27.0

The National Economy

How much do U.S. farm exports benefit other parts of the economy besides agriculture?

Every $1 in exports of feed grains, wheat, rice, and oil seeds creates an estimated additional $1.05 in economic activity in transportation, financing, warehousing, and production of supplies sold to farmers. **Consequently, the $9 billion increase in U.S. agricultural exports in 1980 created about $9.5 billion more income for the rest of the economy.** Economists call this the "multiplier effect." It's like dropping a pebble in a pool. One ripple creates another and another. Increased output in one part of the economy sends a series of widening ripples throughout the rest of the economy.

When you add it up, farm exports generated about $83 billion worth of business in 1980. About $34 billion of this economic activity took place in the farming community; the remaining $49 billion of activity was in nonagricultural industries. Food processing for export alone provided nearly $13 billion of additional sales from the larger 1980 agricultural exports. Greater business activity in transportation and warehousing came to $4.0 billion. In wholesaling and retailing, increased business activity amounted to about $5.3 billion.

In addition, increased farm exports reduced the cost of Government farm assistance programs. That means your

tax costs are lower than they would otherwise be. Government farm program payments to farmers in 1980 cost less than $395 million—down from $1.4 billion in 1979 and $3.0 billion in 1978. In the first 5 years of the 1970's U.S. farm programs totaled $14.0 billion, compared with $7 billion in the last 5 years. Farm exports in the first 5 years totaled $60 billion, in the last 5 years, $128 billion.

Nonfarm Jobs

More than 630,000 nonfarm people have jobs assembling, processing, and distributing agricultural products for export. Some examples: 300,000 people work in wholesale and retail trades, 60,000 in food processing, and 74,000 in transportation and warehousing.

As another example, about 6,500 workers in the

agricultural chemicals and fertilizer industries have jobs supplying farmers and the chemicals needed to raise farm product for export.

Farmers Are Consumers, Too

Farmers buy more products for industry as a result of increased agricultural exports. Farmers buy more household appliances, farm equipment, building supplies, and other capital goods. This increased buying by farmers, as a result of exports, spreads more purchasing power throughout the entire economy.

During the 1970's, for example, farmer expenditures for machinery alone almost tripled to more than $14 billion. This in turn stimulated more jobs and bigger paychecks for workers who make steel, rubber, spark plugs, plastics, electronic gear, ball bearings, and a host of other products.

Farm Exports Benefit the Farmer

It's plain to see that agricultural exports make a big difference in the lives of American farmers and that those exports improve the health of U.S. industry and the economic well-being of everyone in this Nation.

In the 1970's U.S. agricultural exports more than doubled in physical tonnage and jumped five-fold in dollar value. In 1980, dollars from farm exports represented almost 30 percent of the $140 billion that farmers received in cash receipts for their marketing. Agricultural exports accounted for 11 percent of farmers' incomes in the early 1970's. That has doubled, with the exports accounting for more than 20 percent of farm income in each of the last 5 years.

Farm Production

Farm exports are built into this Nation's food production system. So much so, that land, machinery, and mortgage debt are geared to a high level of foreign demand for American foods. Farmers have acquired land, equipment, and debts to handle the expanding overseas demand for American agricultural products.

In 1980, 116 million acres of cropland were used for U.S. agricultural exports, compared with 72 million acres in 1970 and 113 million acres in 1979. If, in 1981, we export no more than we did in 1970, the production of about 50 million farm acres would not have a market outlet. That would cause a sharp loss of income to farmers and others, with increased Federal costs needed to support farm income and to help workers who would lose jobs.

Farm Jobs

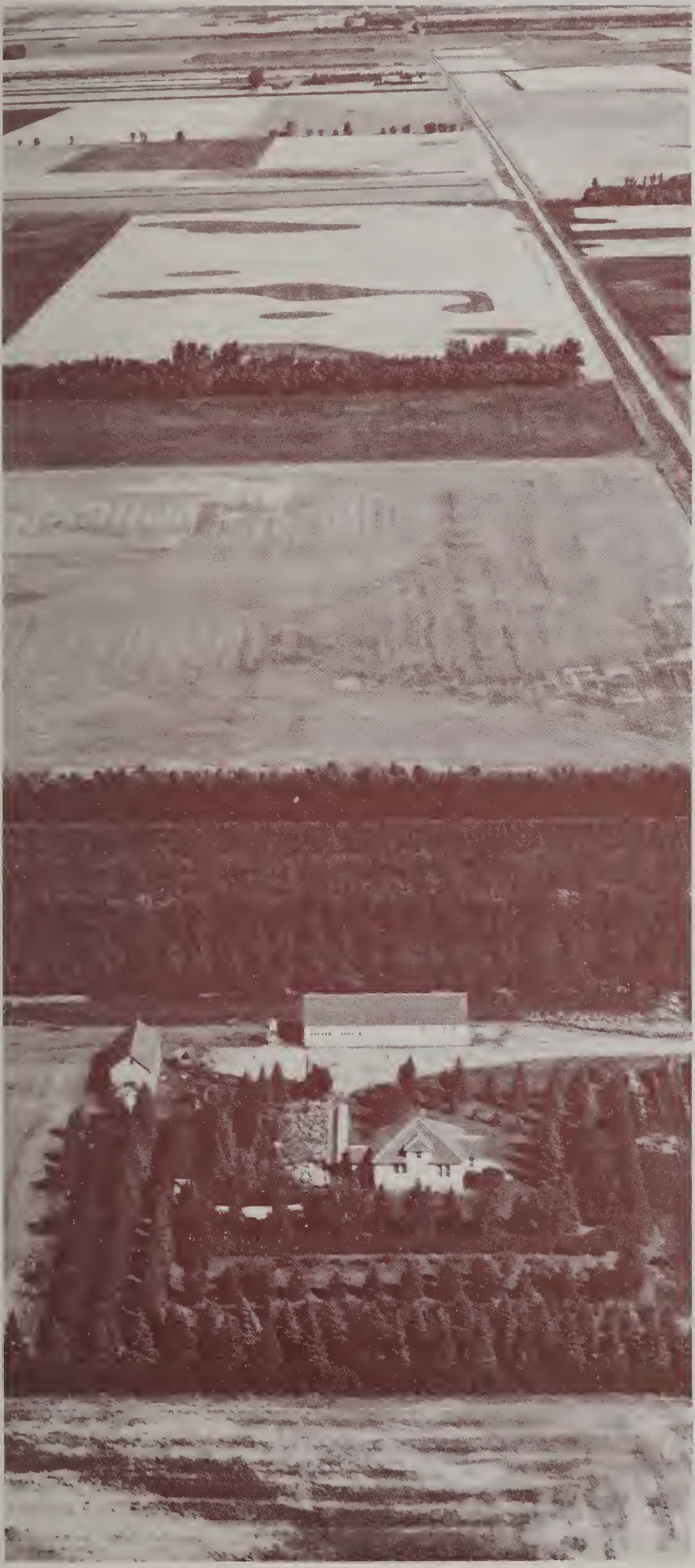
One out of every six people working on farms depends on exports for a job. About 490,000 farmers and farmworkers produced the farm commodities that were exported in 1980. Without farm exports, those nearly one-half million farm people could be looking for jobs in towns and cities.

Take the farm jobs created by agricultural exports, add the nonfarm jobs created by those exports, and the total jobs exceeds 1 million. **If there had been no exports, and no export-related jobs, the ranks of the unemployed in 1980 would have increased by about 20 percent.**

Farm Income

Net farm income was about $6 billion less in 1980 than in 1979 due largely to higher production costs and lower crop yields. Without exports, farm income would have dropped even more.

In 1980, about $1 in every $3.50 of total farm income came from U.S. farm exports. In short, farm exports put well over $40 billion into the agricultural economy in calendar 1980—much more than the $32 billion in 1979.



Farm Exports Improve Foreign Relations

The United States is the world's leading supplier of agricultural products. That has influenced our foreign relations for the past 40 years.

During and immediately after World War II, U.S. agriculture provided the food that gave war-torn countries stability while they rebuilt and restored their economies.

Agricultural exports accounted for as much as 50 percent of all U.S. foreign assistance during the immediate postwar years. Japan and Western Europe received U.S. food assistance. Now they are among our best cash customers for both agricultural and industrial goods. And long-term trade has helped cement our relationship with these countries.

In the 1950's U.S. farm products again helped build greater economic and political stability in the developing world. Public Law 480—Food for Peace—was enacted in 1954 and made America's agricultural bounty available to friendly nations who lacked the dollars to buy our products.

Through concessional sales on credit and some outright donations, U.S. farm products helped many countries reach acceptable dietary levels for the first time. Our foods also gave their governments time to get their economic development programs underway.

Over the years, as the developing world has grown more prosperous, many countries have continued to come to the United States for their agricultural purchases—but now they are able to pay cash on the barrelhead. **Today**

about one-third of our farm product exports go to developing nations, and 85 percent of those exports are commercial sales. In other words, U.S. agriculture has made a valuable contribution to our foreign development policies.

Since P.L. 480 started in 1954, the United States has provided about $30 billion worth of food aid to needy nations. For 25 years, the value of that aid ranged between $1 and $2 billion yearly. Meanwhile, our total agricultural exports multiplied tenfold, climbing to $41 billion in 1980.

Perhaps the most significant contribution of agriculture to U.S. foreign relations occurred in the 1970's. Our ability to export farm products served an important peacemaking function—paving the way for improved relationships with the communist world, and may provide help in resolving some long-standing conflicts in the Middle East.

Certainly it was Russia's need for U.S. grain that led to the initial thawing of our cold war relationships in the early 1970's.

With China, too, our agricultural exports have helped build trade bridges between our two countries and have laid the foundation for more amicable foreign policy relationships.

It's plain that our agricultural assistance has given a large part of the developing world a chance to contrast U.S. agricultural, economic, and political systems with those of the communist world.

Farm Exports Improve the Energy Situation

When we export farm products, aren't we just exporting energy?

Yes, it takes energy to produce those farm products. But what counts is the kind of energy that we're exporting and what we get in return. You see, it took about 103 million barrels of oil to produce and ship $41 billion of U.S. farm exports in 1980. However, the U.S. imported almost 2 billion barrels of oil at a cost of $80 billion. The farm exports paid for more than half of the oil imports.

Look at it another way: **The 103 million barrels of oil that we used to produce and ship our farm exports bought 986 million barrels of oil in return—almost a 1 to 10 cost-benefit ratio.** That has been a real life saver for us.

The secret: Agriculture is a big solar energy factory. Farm crops absorb energy from the sun and turn it into food—*human energy*—and fiber. That process is continous, and the output is a renewable resource, season after season, as long as the sun shines. Petroleum, on the other hand, our most common source of *industrial energy,* is not renewable. Nature isn't making and storing it anymore. That's all there is.

The United States doesn't have the world's largest nonrenewable petroleum energy supplies—we are importing more than half our needs. But we do have the world's most successful agricultural solar energy factory producing a vital life-sustaining renewable resource—food. Our agriculture is incredibly productive. **The average person working on a farm—the farmer, a family worker, and hired help—produces enough for 68 other people, 48 here in the United States and 20 overseas.**

Every U.S. citizen has a stake in keeping our incredible agricultural solar energy factory healthy and humming. The incentive of our private landownership keeps it humming. The competiveness of our free marketing system keeps it humming. Our system of freedom of choices keeps it humming. The ingenuity and hard work of our farmers keep it humming. The stimulation of capitalistic compensation for a job well done keeps it humming. The creativeness of agricultural research and development keeps it humming. And a healthy agricultural export trade keeps it humming.

So we can use the big advantage that we have in food and fiber production, live nutritionally well (better than anywhere else in the world for less of our total income), and export enough agricultural products to enable us to buy large imports of petroleum and other industrial products for the benefit of our Nation's citizens.

May 1981